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## Telecom Services

### Toxic Lead a Serious Topic in General But Not Necessarily a Material Issue for Canadian Telcos

Company	Ticker	Price	Rating	Target
BCE Inc.	BCE (TSX)	C\$57.25	Sector Perform	C\$62.00
	BCE (NYSE)	US\$43.49		
TELUS Corp.	T (TSX)	C\$23.92	Outperform	C\$28.00
	TU (NYSE)	US\$18.13		
Rogers Communications Inc.	RCI.B (TSX)	C\$59.04	Outperform	C\$79.00
	RCI (NYSE)	US\$45.38		

In [yesterday's flash](#), we referenced *The Wall Street Journal* article from two weekends ago titled "America Is Wrapped in Miles of Toxic Lead Cables" which impacted the stock of AT&T (T: NYSE, Not Rated) through July 18 and that of Verizon (VZ: NYSE, Not Rated) through July 17, with some contagion for Canadian telcos as BCE and Telus began to see pressure. This issue doesn't appear to touch the cable companies given their timing on the scene after the 1950s.

Reuters reported that AT&T said yesterday that "lead-clad cables represent less than 10% of its copper footprint of roughly two million sheath miles of cable, the overwhelming majority of which remains in active service". In a court filing yesterday involving a case related to Lake Tahoe, AT&T stated that it "has always maintained that its lead-clad telecommunications cables pose no danger to those who work and play in the waters of Lake Tahoe, but in 2021, AT&T agreed to remove them simply to avoid the expense of litigation. Now, recent reporting by [WSJ] has placed these cables at the center of what it claims is a national public health crisis. Based on our repeated testing of these cables - data and methods we have made publicly available - we have serious concerns with the [WSJ]'s testing methods and the reliability of its results and reporting". Meanwhile, per *Bloomberg*, Verizon stated that it "is testing various sites where lead was reported to be leaching into the ground from wiring dating back to the early 20th century".

After we published our flash yesterday, Telus noted that it has a very small number of legacy lead-sheathed cables making up less than 0.3% of its entire network and that a large percentage of lead-sheathed cables have been removed and will continue to be removed as it progresses through its copper retirement strategy. The majority of the remaining lead-sheathed cables at Telus are underground, within a contained conduit structure (vault) and inaccessible to the public. It further highlighted that cables that contain lead-sheathing make up an increasingly small portion of its network, but may still carry important services so great care must be taken when replacing them. Finally, the telco also indicated that it has robust methods, policies, and procedures in place to safely handle lead cables.

We noted yesterday that when Bell does the cable consolidation for fibre, it aims to move out of the lead cables into plastic cables. This exercise mostly relates to underground cables and the company's technicians access them in cable vaults and manholes. It's possible some overhead cables might have lead, but the latter is heavy and not ideal, so its use would be expected to be relatively limited. Bell has a technician safety process involving the decontamination of

uniforms, truck cabins and tools by a specialized third party. Besides employee health and safety guidelines for those directly handling the cable, environmental testing is also done while the work is being carried out.

As we talk with more people who can help shed light on the historical as well as present context of these old phone cables, the view is that we're talking about lead-clad cables as a percent of cable lines of telcos in the single digits with this declining amid fibre rollouts and eventual copper decommissioning efforts. Governments and regulations play some role in this equation, as consumers have often been protected from having their legacy services easily replaced.

To our knowledge, there have been no lawsuits against BCE or Telus related to lead cables. We've seen no related investigative reports or headlines and no regulatory or government inquiries.

We believe Industry Canada has oversight of the few key sub-marine ocean cables, while the CRTC regulates telecommunications infrastructure. Predecessor companies to BCE and Telus would have seen their construction programs reviewed annually by the CRTC to help set regulated rates. The CRTC is believed to have regulations to minimize the use of lead in telecommunications cables which require service providers to meet specific environmental and safety standards, including restrictions on lead content, but we've not found anything specific on its website.

It remains to be seen if the CRTC will require further action by the telcos and whether new regulations might come into place, but this is not necessarily a given, and we'd be surprised if government assistance isn't provided to minimize any possible future outlays that are outside the normal course of operations and capex budgets.

Our BCE target is based on the averages of our 2023E/2024E DCF & 2024E/2025E NAV, with implied EV/EBITDA of 8.8x 2023E, 8.5x 2024E & 8.3x 2025E.

Our Rogers target is based on the averages of our PF2023E/2024E DCF & 2024E/2025E NAV, with implied EV/EBITDA of 8.9x PF2023E, 8.5x 2024E & 8.0x 2025E.

Our Telus target is based on the averages of our 2023E/2024E DCF & 2024E/2025E NAV, with implied EV/EBITDA of 9.2x PF2023E, 8.5x 2024E & 7.9x 2025E.

**Disclosures**

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**BCE Inc. Rating History as of 07/18/2023**



**TELUS Corp. Rating History as of 07/18/2023**



**Rogers Communications Inc. Rating History as of 07/18/2023**



**RISKS:**

## BCE

**Economic & Regulatory Backdrop:** Although demand for wireless and wireline services is expected to hold up well during economic cycles, consumers and businesses may still look to rationalize services or pursue less expensive options. The regulatory landscape is not without risks as the Canadian government looks to assist wholesalers as well as newer entrants and reduce pricing in wireless and broadband.

**Competition:** Competitive intensity in wireless remains high and may increase as Freedom Mobile continues to upgrade its network. Efforts by cablecos to roll out IPTV services & enhance their bundling pose a challenge to Bell's evolving deployment of fibre & related share gains.

**Secular Trends & Programming Costs:** Previously rising programming costs, especially for sports, have an impact on media margins, while it remains to be seen how sports along with better traction in advertising across traditional media will resume.

## T / TU

**Economic & Regulatory Backdrop:** Although demand for wireless and wireline services is expected to hold up well during economic cycles, consumers and businesses may still look to rationalize services or pursue less expensive options. The regulatory landscape is not without risks as the Canadian government looks to assist wholesalers as well as newer entrants and reduce pricing in wireless and broadband.

**Competition:** Competitive intensity in wireless remains high and may increase as Freedom Mobile continues to upgrade its network. Efforts by cablecos to roll out IPTV services and enhance their bundling pose a challenge to TELUS's evolving deployment of fibre and related share gains.

**Executing TELUS Health & TELUS International Strategies:** Each of TH and TI benefit from secular tailwinds with organic growth opportunities to be complemented by M&A, however, they have yet to perform optimally amidst prior customer losses at TI, dilutive acquisitions, and other issues.

## RCI.B / RCI

**Economic, Regulatory Backdrop & Shaw Takeout:** Although demand for wireless and cable services is expected to hold up well during economic cycles, consumers and businesses may still look to rationalize services or pursue less expensive options. The regulatory landscape is not without risks as the Canadian government looks to assist wholesalers as well as newer entrants and reduce pricing in wireless and broadband. The takeout of Shaw underwent serious regulatory scrutiny with a mandated divestiture of Freedom, while it remains to be seen if anticipated deal synergies are ultimately optimally achieved.

**Competition & COVID pressure:** Bell & TELUS along with regional players continue to apply pressure in wireless where COVID had undermined roaming revenues and unlimited plans continue to impact overage fees. Bell's fibre deployment is ongoing and elevating competitive pressure in wireline.

**Programming Costs & Secular Advertising Pressure:** Rising programming costs, especially for sports, have an impact on media margins, while it remains to be seen how Blue Jays' financials will look as COVID continues. Advertising continues to see a shift to digital from traditional media.

## ADDITIONAL COMPANY RELATED DISCLOSURES

BCE Inc. 2, 3, 5, 7, 9

Rogers Communications Inc. 2, 3, 5, 7

TELUS Corp. 2, 3, 4, 5, 7

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	Outperform	Sector Perform	Underperform
Coverage Universe Ratings Distribution	65%	32%	1%
Investment Banking Distribution	60%	52%	75%

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